Lower *Real* Boosts Brazil's Agricultural Exports

Brazil had record and near-record crops of soybeans, sugar, coffee and other products to sell in the international market in the 1998/99 marketing year. Brazil's bumper crops plus the currency depreciation brought on by the financial crisis put downward pressure on international prices of these major commodities [Christine Bolling (202) 694-5212, hbolling@ers.usda.gov]

The 32-percent devaluation of the Brazilian currency (the *real*) from January to February 1999 strengthened the competitiveness of Brazilian exporters during a period of bumper crops in Brazil and weak global demand. The Asian financial crisis, the Russian crisis, and the outflow of capital from declining investor confidence exacerbated Brazil's financial crisis. Brazil's role as an important agricultural exporter made it vulnerable to the decline in demand in important importing countries such as Japan and Korea. Brazil was also affected by increased competition from other agricultural exporters, such as Thailand, whose currencies were severely depreciated in 1997. However, the lowered value of the *real* significantly increased the country's competitiveness in exports. Agricultural exports such as soybeans, soybean oil, sugar, and poultry increased significantly in terms of tonnage, but did not increase in terms of dollar value (table 12). Total exports decreased 11 percent in dollar terms during January-September 1999, compared with a year earlier.

Brazil's Financial Crisis

Brazil had enjoyed 4 years of economic stability from the Real Plan following the economic disaster of mid-1994, when inflation reached 1,141 percent, and the Brazilian currency was devalued and renamed the *real*.

The Real Plan brought economic prosperity to Brazil, but high consumer spending on imported goods also led to a trade deficit. Moreover, high government spending, particularly on retirement programs, set the stage for the government deficit. The *real* was originally set on a par with the U.S. dollar. The Central Bank, using a crawling peg system with a mini-band mechanism, allowed only small daily changes in the value of the currency. As the dollar strengthened in 1995 in relation to other currencies, however, the *real* began to appreciate relative to the dollar. The Russian financial crisis in August 1998 heightened fears among international investors concerning returns to investments in emerging markets. Capital flight increased and observers began to speculate that the Brazilian government would devalue its currency.

Table 12--Brazil's exports of major products

Product	January-September		% change
	1998	1999	
	$ billion		
Total	39.5	35.0	-11
Coffee	1.7	1.7	-1
Soybeans	2.0	1.5	-27
Sugar	1.4	1.3	-4
Soybean meal	1.4	1.0	-25
Fruit juice (orange)	0.9	0.9	-1
Poultry meat	0.6	0.7	23
Soybean oil	0.7	0.5	-19

Note. Original tables are in millions of U.S. dollars, and were rounded here to indicate the ranking of products. The percent changes reported here are based on the original data.

Source: Global Trade Information Service, The World Trade Atlas, Import Export Trade Information System

The problem started on January 6, 1999, when a provincial governor, a former president of Brazil, announced a 90-day moratorium on debt payments to the central government to protest strict fiscal measures under an agreement with the International Monetary Fund (IMF). The move raised investors' fears and spurred serious capital flight. Recognizing that the *real* was under attack, Brazil's Central Bank decided on "de facto" devaluation on January 13 by widening the band in which the *real* could be traded while preventing a free fall in the currency. The alternative would have been for the government to defend the currency and potentially deplete its foreign reserve holdings.

The new currency band lasted for 2 days, during which another $1 billion in capital reportedly left Brazil. The next step was to allow the *real* to float freely, and by February 3 it had tumbled 32 percent in value to $R1.79 per U.S. dollar. To discourage investors from withdrawing more funds from Brazil, the Central Bank of Brazil announced that short-term interest rates would increase from 29 to 39 percent. Since then, the International Monetary Fund (IMF) has paid Brazil the first portion of a $41.5-billion loan to shore up its economy. Brazil's economy appears to have strengthened in 2000; after significant gyration, the *real* was trading at $R1.78 per U.S. dollar on February 1, 2000.

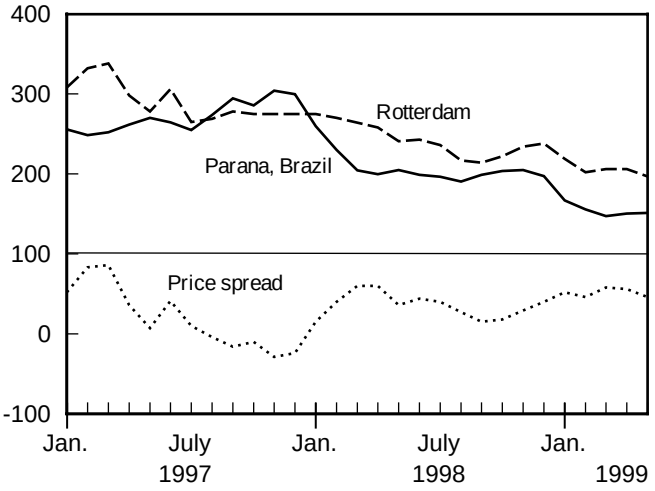
The Effect on Brazilian Farmers

The Brazilian financial crisis did not fall equally on everyone. Farmers benefited from higher prices in terms of the *real*, even though the dollar price for many commodities had already fallen well in advance of the financial crisis (fig. 21). (See box, "Price Transmission …") This is evident from

Figure 21

Soybean prices: Brazil and Rotterdam

$U.S/metric ton



Source: ABIOVE, Brazil and IMF.

the soybean prices quoted by the Brazilian Oilseed Crushers' Association (ABIOVE).

At the same time, prices for imported inputs also began to rise, in some cases leading to a cost-price squeeze for many producers. Soybean production costs in Parana (denominated in dollars) declined between 1995 and 1998 according to the Parana Department of Agriculture (SEAB/DERAL), as quoted by the U.S. Agricultural Counselor of Brazil. Costs for imported inputs could have been most affected by the devaluation. According to the U.S. Agricultural Counselor, imported seed, fertilizers, and chemicals, comprising 44 percent of total costs, were most vulnerable to increases in 1999/2000. Soybean production in the 1998/99 marketing year (beginning February 1999) was at near record levels of 31 million metric tons, and may moderate in 1999/2000. Soybean meal and oil production is also at near record levels. The 1999/2000 marketing-year soybean exports are forecast at 9.3 million metric tons. Soybean meal exports are down slightly in 1998/99 because of increased use of soybean meal in Brazil's growing broiler industry.

The poultry industry faced the same situation, as dollar prices plunged but *real* prices returned to former levels. According to the Associacao Paulista de Avicultura (Sao Paulo Association of Poultry Producers), the price of live poultry in Sao Paulo in relation to production costs began to bounce back in January-March, after declining in late 1998, mostly because corn prices had fallen in relation to live poultry prices. Live poultry prices quoted in dollars fell from 60 cents a pound in December 1998 to 47 cents in January 1999 and 43 cents in March. In terms of *reals*, live poultry prices bounced back in February and March to their November levels, after dipping sharply in January (Revista Aves & Ovos, Brazil). Live poultry prices also stayed ahead of production costs, but in March, the relationship was not as robust as it had been earlier.

There is no transmission of prices from the U.S. market to the Brazilian market, mostly because trade in poultry is restricted between the two countries.[5]

Policy Responses

The Brazilian Central Bank first raised interest rates in 1998, in response to the pressure of the Russian crisis. The IMF also saw the need to shore up the Brazilian economy to prevent the Asian crisis from spreading and causing a global recession. In November 1998, the Brazilian government signed a $41.5-billion financing agreement with the IMF and other lenders. The IMF loans included certain conditions. Retired public-sector workers were required to contribute 11 to 20 percent of their benefits to the social security program. The austerity package also increased the contribution of public sector workers to social security and introduced a minimum retirement age of civil servants.

The package also called for extending several taxes that were originally passed as temporary measures. Under the emergency stabilization fund, the federal government could impound 20 percent of all taxes destined for state and local governments. The austerity package proposed doubling the amount impounded to 40 percent and extending the fund, which was to expire in 1999, to 2006. Authorities also proposed raising the tax on financial transfers from 0.2 percent to 0.38 percent and called on the Congress to legally oblige states to limit spending on active and retired employees to 60 percent of their budgets, at the same time cutting the resources available to them. (See Brazil's Letter of Intent to IMF.)

At first, the Brazilian Congress was reluctant to accept all the austerity programs that were part of the package, even though it appeared at the time that Brazil would experience a recession even if the package were not adopted. Early forecasts were for a decline in Brazil's real GDP on the order of 3 percent. With the austerity program in place and the arrival of the first portion of IMF funds, Brazil faces a possible 1-percent decline in real GDP growth in 1999. (February 2000 estimates for Brazil's 1999 GDP growth from country sources range from 0 to 1 percent.)

[5] In a linear regression between the monthly wholesale price of whole chickens in Sao Paulo expressed in dollars and the U.S. reference price for whole chickens for January 1997 to March 1999, the equation is as follows:$ Sao Paulo price = .833 – 0.004 U.S. reference price, where SE = .003, and R-square for the equation = .03. The double logarithmic function also has no statistically significant fit.

Price Transmission from the Brazilian Farm to the World Market

The author analyzed the relationship between domestic Brazilian prices and international prices for soybeans and poultry with regression analysis to determine whether monthly international prices responded to internal Brazilian markets from January 1997 to March 1999 (price transmission). For soybeans, standard statistical tests indicate there is some pass-through of international prices and the exchange rate change to domestic prices in Brazil. For poultry, there is no pass-through from the U.S. reference price to wholesale prices for poultry in Brazil. In a linear regression analysis of monthly Parana (Brazil) soybean prices with c.i.f. Rotterdam soybean prices for January 1997 to June 1999, as in equation (1).

(1) $ Rotterdam price = 115.48+.628 $Parana price, where standard deviation (s.e) for the estimated coefficient is .095, and R-square for the equation is .62.

Logarithmic equation (2) explains the exchange pass-through between the Parana price and the Rotterdam price during the same months:

(2) Ln (Rotterdam price in $US) = 3.401 + .404 ln(Parana price in *reals*) -.641 ln(exchange rate)
(s.e. =.127) (s.e. = .087)

R-square = .72

Both the price and exchange variables in (2) are significantly different from zero according to the standard "t " test, but the pass-throughs in price and exchange rate are incomplete according to the "t" tests where the coefficients of the variables are tested to be significantly different from 1 for incomplete pass-through.

Brazil is an important competitor with the United States in European and Asian markets. Brazil's broiler production is forecast to grow from 4.5 million metric tons in 1998 to 5 million in 1999. These expectations are based on favorable net returns to producers, adequate supplies of corn and soybean meal, and production costs being held under control. Exports of whole broilers and parts are expected to increase from 612,000 metric tons in 1998 to 700,000 metric tons in 1999, largely based on Brazil's competitive position following the currency devaluation.

Frozen concentrated orange juice (FCOJ) production for 1999/2000 is forecast at 1.258 million tons (65 degree brix), up 7 percent from the previous year. Increased production is from a larger orange crop and the increased tendency to sell oranges for juice rather than fresh use. FCOJ exports are also expected to rise. Current FCOJ export prices are $1,400-$1,500 per metric ton to the European Union (Brazil's largest export customers are Belgium and the Netherlands) and $1,200-$1,300 a metric ton to Japan (Brazil's fourth largest market following the United States). The January devaluation of the *real* did not bring any significant change to the FCOJ companies. Production costs for oranges increased 15-20 percent due to higher prices for imported inputs. March 1999 prices for juice oranges in *reals* were 50 percent higher than in March 1998, according to Brazil's Institute of Agricultural Economics.

Lower coffee prices in early 1999 were mostly due to the large crop of 1998/1999. Exports in the 1998/99 marketing year were 50 percent higher than the previous year because of the larger availability of coffee. Strong bean exports in early 1999, in what typically represented the export off-season, were aided by the new competitiveness of Brazilian coffee resulting from the devaluation of the *real*. The 1999/2000 crop is estimated to be 26 percent smaller than the previous year's crop, mostly because of the off year of the biannual production cycle and higher production costs. Because of the decline, export supplies will also decrease.

The May 1999/April 2000 marketing year for sugar follows a year of record-breaking sugar production and exports. Even with low sugar prices, production and exports are expected to increase further. More sugarcane land was available for harvest in 1999/2000. Brazil's sugar production is forecast to increase from 18.3 million metric tons in 1998/99 to 19 million. Exports are expected to increase from 8.6 to 9 million metric tons. Brazil has increased sugarcane area to be harvested, but some may remain in the fields because of low prices. Alcohol made from sugar is the principal user of sugarcane, but international prices for alcohol are even more depressed than for sugar. Because of extremely low alcohol prices, Brazilian sugar mills have chosen to increase production of sugar rather than alcohol. Sugar mills, many of which are under financial stress, are producing sugar to have cash to pay off debts, but others are operating at less than full capacity or not at all. The devaluation increased the competitiveness of Brazilian sugar in the international market.

The Effect on Trade and International Prices

The lower value of the Brazilian *real* was one of several factors that led to lower international commodity prices in 1999. Because of the El Niño weather phenomenon that increased rainfall in the main producing areas, Brazil harvested large crops for nearly every major traded commodity. The Asian crisis and the continued weakening of Japan's buying power in the international market lowered Brazil's export opportunities throughout Asia. All of these factors put downward pressure on world markets. The lower *real* value had a profound effect on agricultural commodity markets because of Brazil's role as a major agricultural exporter. Products such as soybeans, sugar, orange juice, and poultry have especially felt the impact of Brazil's *real* depreciation.

Brazil became more competitive in the international market, and its increased export supplies caused international prices to decline. For U.S. exporters of soybeans and products, market share and value of exports declined because of lower prices. U.S. poultry exporters also faced increased competition from Brazil and Thailand (which had already devalued its currency in 1997.) Likewise, U.S. orange juice producers face price competition at home and abroad. U.S. importers, however, have benefited from a buyer's market, as imports of orange juice and coffee have been much lower priced. International sugar prices also declined, but U.S. importers faced protective tariffs and quotas that prevented the pass-through of lowered prices from international markets to U.S. consumers. Some specifics:

Coffee. Brazil's large coffee crop, responsible for the bulge in global production in 1998/99, initially put downward pressure on international prices, and the 40-percent devaluation of the *real* exacerbated the price drop.

Arabica and robusta coffee prices during the first quarter of 1999 fell 5.7 percent from first- quarter 1998 and 3.9 percent from the previous quarter. Prices of arabica coffee (Brazil's principal type) were off 37 percent from the first quarter of 1998.

The depreciation prompted Brazilian exporters to increase coffee exports, using inventories to reap the benefits of high domestic prices before any currency rebound. During the first quarter of 1999, Brazil's coffee exports were double those of a year earlier (World Bank).

Soybeans and products. First-quarter 1999 soybean prices fell 18 percent from the previous quarter and 22 percent from a year earlier because of record soybean and total oilseed crops worldwide. World soybean production in 1998/99 was 20 percent higher than 2 years earlier and up nearly 50 percent during the 1990's, so the outlook for the foreseeable future is for little improvement in international prices.

Following the depreciation of the *real* in January 1999, Brazilian soybean and product exports surged. Brazil is second to Argentina in total exports of soybean oil and meal, and the United States is third. The United States leads in soybean exports. Brazil also had a record soybean harvest in the spring of 1999.

The impact on the soybean complex is not clear. The farmers' debt/financing situation varied between regions and farm size. Smaller farmers in the South who were able to access Bank of Brazil local currency-based financing or use their own money to finance crop production appeared to come out well. Larger farmers, primarily from the Center-West and Northeastern states, who were financed by the industry or agricultural input supply companies, have a "dollarized" adjustment factor included in the cost formula. The lower *real* value automatically took back in higher production costs much of what it gave in the higher local currency value for soybeans.

Sugar. International sugar prices collapsed in January 1999 due to the Brazilian currency crisis, compounded with the large Brazilian sugar crop and the increasing surplus of world sugar stocks. Brazil was the world's largest sugar exporter with a 24-percent market share in 1997/98, and a near record sugarcane crop led to large exportable supplies in an already saturated market. Brazilian sugar exports have surged since January 1999, and in March 1999, were 15 times the level of March 1998.

Rice. On the import side, lower priced paddy rice increased as a share of Brazil's total rice imports. While total paddy rice imports dropped only slightly from a year earlier during the first 11 months of 1999, milled rice imports declined by 44 percent. Argentina accounted for the bulk of the switch. Milled rice shipments from Argentina declining by more than a half from a year earlier during the first 11 months of 1999. In contrast, imports of Argentine paddy increased by nearly 160 percent. Total rice imports declined 26 percent during this period, largely due to a larger Brazilian crop. The depreciation in *real* in early 1999 increased the price difference between milled and rough rice imports. In addition to a price advantage, importing paddy rice generates more employment and allows mills to operate at higher capacity.

Implications for the Brazilian Economy

The Brazilian government adopted several new policies to meet the requirements of IMF, such as a constitutional amendment for pension reform in late 1998, the flexible exchange rate in early 1999, and privatization of state banks. (See IMF citation for more details).

The Brazilian economy is expected to register a decline of 1 percent in real GDP in calendar 1999 (a smaller decline than earlier anticipated). The open unemployment rate was about 8 percent during the first 4 months of 1999, only marginally higher than during 1998. Inflation held at 7.4 percent during

Table 13--Brazil's agricultural exports

SITC Code	Product	1996	1997	1998
			Million US$	
	Total, all products	47,747	52,990	51,120
0901	Coffee	1,722	2,748	2,334
1201	Soybeans	1,018	2,452	2,175
1701	Cane sugar	1,611	1,771	1,941
2304	Soybean cake and meal	2,731	2,681	1,751
2009	Fruit juice	1,454	1,058	1,306
2401	Tobacco	1,029	1,091	940
1507	Soybean oil	713	597	829
0207	Poultry meat, offal	881	918	775
4104	Cattle hides, leather	626	701	639
2402	Cigars, cigarettes	482	568	609
1602	Meat, offal	254	253	324
2101	Extracts from coffee	413	385	271
0202	Beef, frozen	152	148	219
0801	Coconuts, Brazil nuts	184	183	164
0203	Pork, fresh or frozen	122	142	148
1804	Butter, animal fats	91	85	99
2106	Other food preparations	42	56	96
0904	Pepper	55	59	79
1704	Candies, not chocolate	70	78	74
0306	Crustaceans	89	72	68
3503	Gelatin, animal glues	58	62	60
0201	Beef, chilled	42	49	57
1806	Chocolate	45	59	54
3301	Essential oils	86	68	45
0807	Melons, papayas	31	29	39
0804	Dates, figs, pineapples	35	26	38
0903	Mate tea	40	35	34
1516	Vegetable oils, hydrogenated	37	39	29
2008	Other fruits, nuts	34	33	28
2203	Beer from malt	55	41	27
1302	Pectates	21	22	24

Source: Global Trade Information Service, The World Trade Atlas, Import Export Trade Information System.

the first 5 months of 1999, with little or no increase in consumer prices for food. In the absence of other external shocks, inflation is expected to be 12 percent for the calendar year.

The low pass-through of the exchange rate reflects the firm stance of policies, the combined absence of indexation (a prominent part of Brazilian policy prior to the Real Plan), and the favorable impact of low commodity prices and a very good harvest on the Brazilian economy. While there was a small trade deficit in early 1999, Brazil is expected to end the year with a trade surplus. However, Brazil has seen its terms of trade deteriorate since prices for major exports, particularly agricultural commodities, have remained depressed, while oil prices have recently risen in the world market. Foreign direct investment continued to flow in during early 1999, shoring up Brazil's balance of payments.

Implications for U.S. Agriculture and Trade

Brazil may embark on a new long-term economic path in which consumers have less buying power and Brazilian export products are more competitive due to the 1999 devaluation and the expected decline in real GDP. In an experimental simulation from the 1998 ERS Baseline,[6] where a scenario of the 1999 real GDP is 1 percent less than in 1998, and the nominal exchange rate is 1.80 reals per dollar, Brazil's *real* GDP in 2008 would be significantly less than was projected in the 1998 Baseline exercise.

Per capita consumption of meat from broilers would not grow as rapidly as projected in the 1998 ERS Baseline. Increased poultry production would go even more toward increased exports than reported in the 1998 Baseline.

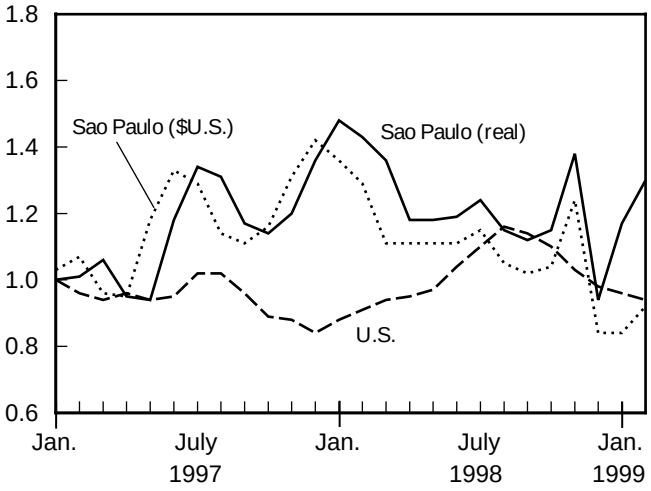
Production of raw soybeans would be even higher in response to increased world demand, according to the simulation. Soybean oil and meal exports would increase because of Brazil's increased competitiveness in the world market. Domestic use of soybean meal would be expected to decline from the earlier projections because of the lowered expectations for poultry production. Per capita consumption of soybean oil would be about the same as in 1998, because of lowered income expectations.

[6] The Baseline is an ERS simulation of global agricultural production, consumption, and trade, focusing on the grain, oilseed, and livestock complexes, with current projections to 2009. A synopsis of the Baseline is published by ERS annually and appears on the ERS web site.

Figure 22

Whole chicken prices, U.S. and Sao Paulo

Jan. 1997=100



Source: AVES e OVOS, Brazil and ERS, USDA.

Because Brazil is an important player in the international market, U.S. farmers producing competing products, such as soybeans and poultry meat, may face stiffer competition and will most likely see a decline in product prices. Consumers of tropical products will see lower prices at the grocery store for some products such as coffee. Consumer prices for sugar and orange juice may not decline much because of tariffs, despite lower prices in the international market.

The reality of Brazil's devaluation has already hit U.S.-Brazil trade. U.S. January-November agricultural exports to Brazil declined from $452 million in 1998 to $196 million in 1999. U.S. January-November agricultural imports from Brazil increased from $1.117 billion in 1998 to $1.343 billion in 1999.

References

ABIOVE (Brazilian Oilseed Crushers Association) Web Page. *http://www.abiove.com.br/abiov.html*

Associacao Paulista de Avicultura (Sao Paulo Association of Poultry Producers), Revista Aves & Ovos, April 1999. *http://www.apa.com.br/revista.htm*, http://www.apa.com.br/estadisticas/estadisticas.htm

International Monetary Fund. I*nternational Financial Statistics*, selected issues.

International Monetary Fund. "Brazil Letter of Intent, November 13, 1998." *http://www.imfnt1x.org80/external/np/loi/111398.htm*

International Monetary Fund. *Brazil Memorandum of Economic Policies*, July 2, 1999, *http://www.imf.org/external/np/loi/1999/070299.htm*

Langley, Suchada, and Chris Bolling. "Brazil's Financial Crisis & the Potential Aftershocks." *Agricultural Outlook*, AGO-259, pp. 9-11, March 1999.

USDA Foreign Agricultural Service. *Brazil Oilseeds and Products, Oilseed Update-Soybeans and Products*, BR9005, March 6, 1999 *http://160.232.048/appscripts/gain/gain_display_report_ID=25413863*

USDA Foreign Agricultural Service. *Brazil Citrus Annual*, BR9015, July 12, 1999. *http://160.232.048/appscripts/gain/gain_display_report_ID=25465158*

USDA Foreign Agricultural Service. *Brazil Sugar Annual*, BR9009, April 12, 1999. *http://160.232.048/appscripts/gain/gain_display_report_ID=25453962*

World Bank Commodities Team Development Prospects Group. *Global Commodity Markets, A Comprehensive Review and Price Forecast*, Vol. 7 No. 2, Apr. 1999.

Effects of the International Financial Crises on Latin America

The international financial crises of 1997-99 and particularly the spillovers to Brazil in early 1999 have affected the Latin American economies more heavily than originally anticipated. The crises and the sharp depreciation of the Brazilian *rea*l initiated significant currency devaluation in several countries in the region. In the first half of 1999, nearly all Latin American countries were either reporting a slowdown in economic growth or a full-blown recession. The countries that most seriously affected include Argentina, Chile, Colombia, Paraguay, Peru, Venezuela, and above all, Brazil. The crises had the following effects on income and growth, output, trade, and policy adjustments.

Income Effects: Lower commodity prices following record world production and weakened Asian demand significantly affected Latin America's income and growth. The most recent World Bank forecast for the region in 1999 is a 0.4-percent contraction in economic growth. Lower grain prices have negatively affected farm sector income in various Latin American countries. The financial crises were initially felt in trade linkages through a drop in the prices of agricultural products (soybeans, fish, and wood) and raw materials, particularly oil and copper. Oil and copper are major exports for several Latin America producers (oil for Mexico, Venezuela, Ecuador, Colombia, and Argentina; copper for Chile, Bolivia, and Peru). The price index for raw materials, which had been on an upswing since early 1993, plummeted at the onset of the Asian crisis, reaching its lowest level for the decade in December 1998. Oil prices have recovered since the second half of 1999.

Output Effects: High interest rates and imported input prices negatively affected agricultural production. Agricultural production in several Latin American countries was affected as high interest rates dampened investment in rural areas. In addition, as imported input prices rose, input use fell. With disposable incomes declining, consumers adjusted their diets toward cheaper foods such as white corn and dried beans. Good weather, however, led to higher output for coarse grains and wheat.

Trade Effects: Latin America exports slowed 4 percent in volume terms in 1998. As export prices fell, the terms of trade declined significantly in Venezuela, Colombia, Ecuador, Chile, and Peru. Venezuela's terms of trade initially fell more than 20 percent in 1998 from 1997, mainly due to the plunge in international oil prices. The terms of trade have since improved, as oil prices have risen. Colombia's exports in value terms have stagnated since 1997 and the terms of trade have fallen more than 9 percent. In the case of Chile and Peru, the falls were exacerbated by the loss of markets in Asia. In Chile, the upward trend in its external income was interrupted in 1997 when copper prices plunged as Asian demand eroded. In value terms, the drop in exports was even more apparent in Peru, where the fall that began in mid-1997 accelerated thereafter due to the country's trade dependence with Asia (for the region Peru ranks second, after Chile).

Latin America's imports are expected to fall 12 percent in value in 1999 (in dollar terms) from the high level recorded in 1997, while the value of exports is expected to rise 10 percent.

Policy Measures: Trade policies such as anti-dumping and safeguard mechanisms are used to protect domestic producers from Asian exports (Argentina, Colombia, Ecuador, Peru and Uruguay) and to improve the current account balance (Brazil). Also, in March 1999, Brazil reduced its import financing restrictions, making USDA's export credit guarantee, the GSM-102 program, more attractive for U.S. exports to Brazil as it allowed for shorter-term financing (less than 360 days) than had previously been possible. This change in Brazilian regulations reflects the difficulties of Brazilian exporters and importers to obtain credit in the international market after the January devaluation of the *real*. In Colombia, a value-added tax imposed in January 1999 on feed ingredients is expected to dampen the country's import demand of U.S. soybean meal (the United States supplies more than half of Colombia's soybean meal imports).

Table 14--Importance of the United States in Latin America's agricultural trade, 1995-97

	Share of total agricultural imports from U.S.			Share of total agricultural exports to U.S.		
	1995	1996	1997	1995	1996	1997
			Percent			
Argentina	11	15	20	5	6	6
Brazil	11	10	11	9	11	9
Chile	18	11	11	24	26	27
Colombia	37	41	36	30	32	34
Ecuador	41	39	37	32	31	29
Mexico	75	75	75	83	81	75
Peru	25	30	19	32	26	35
Venezuela	33	33	35	9	19	13

Source: BICO database.

Table 15--Share of total agricultural imports from the United States, by country and category, 1997

	Bulk	Intermediate	Consumer-oriented
		Percent	
Argentina	28	28	11
Brazil	11	11	10
Chile	14	10	9
Colombia	44	34	22
Ecuador	61	35	17
Mexico	81	76	68
Peru	22	21	12
Venezuela	42	37	21

Source: BICO Database.

Effects on U.S. Agricultural Exports: Latin American countries are important markets and sources of supply for the United States. The United States ships almost one-quarter of its agricultural exports to Latin America and buys more than a third of its total agricultural imports from there. The United States exports feed grains, wheat, pulses, oilseeds and products, sugar, seeds, deciduous fruits, cattle, beef and veal, pork, poultry, and dairy products to the region and in turn imports horticultural and tropical products such as coffee, cut flowers, bananas, cattle, and fresh non-citrus fruits. Over 50 percent of U.S. agricultural exports to the Latin American region went to Mexico in 1998.

Latin America's consumer demand has slackened considerably as higher interest rates, weakening currencies and rising domestic fuel prices have reduced the population's disposable income. Reduced consumer purchasing power during 1999 is expected to reduce Latin America's demand for most imported basic commodities (deciduous fruits, poultry, and eggs) and higher valued processed foods. The forecast for 2000 is that growth in imported oilseed meals will be slow as consumption of animal protein (pork, poultry and beef) continues to go down. Soybean oil imports are forecast to increase because the amount of imported whole soybeans for vegetable oil is expected to decline (FAS Country Reports).

In addition, near-record supplies of field crops in South America last year contributed to the decline in U.S. exports. Bumper harvests in Brazil, Argentina and Paraguay (the world's second, third, and sixth largest producers of soybeans) have increased competition for U.S. exporters.

References

CEPAL. *Panorama Economico para America Latina y el Caribe 1998-1999*. Naciones Unidas, CEPAL, June 1999.

FAS/USDA. Various attache reports.

SELA. Latino America en la Crisis Financiera Internacional. Permanent Secretariat of SELA, June 1999.

Constanza Valdes (011-582-202-5136, cvaldes@ers.usda.gov)